I think the first response to a default would be a rise in the interest rates we have to pay for our debt.

I would urge progress on the efforts to have a comprehensive solution.

I yield the floor.

The PRESIDING OFFICER. The Senator from Illinois is recognized.

Mr. KIRK. Mr. President, I ask unanimous consent to speak as in morning business.

The PRESIDING OFFICER. The Senate is in morning business. The Senator is recognized.

LINCOLN LEGACY INFRASTRUCTURE DEVELOPMENT ACT

Mr. KIRK. Mr. President, beyond the debt limit extension, which has rightly consumed the attention of this body, we face another challenge—the funding for our roads, airports, and railroads.

Our best estimate is that current needs would total $225 billion annually, but revenue from the main source of funding for these programs, the gasoline tax, only totaled $90 billion.

The law requires balance in the transportation trust fund. So how would we respond? There are basically three major options.

Option 1: Let funding fall. This would be a catastrophe, especially for the construction industry, where already in Illinois upwards of 30 percent of construction workers are without work.

Option 2: Increase the gas tax. But that is one of the most regressive taxes that hits the working poor harder than almost any other citizen in our country. The slowdown in our economy as a result of a gas tax increase would probably cause unemployment to go up and could jeopardize our extremely fragile recovery.

There is a third option, but before I describe that, let me ask a question. Arguably, what is the third biggest thing that the Lincoln administration was known for? First would be the emancipation proclamation. Second would be the victory in the Civil War. What is No. 3? I argue that it was the 1862 Transcontinental Railway Act—an act that, in 1862, when the Lincoln administration was borrowing as much money as it could from as many creditors as possible to fund the expansion of the Union Army, with credit already stretching to the limit—and does this sound familiar—the Lincoln administration launched the largest infrastructure development program in the history of the United States. We built a 2,000-mile railroad in only 6 years, and created 7,000 American towns. We did it with only $50 million in appropriations.

How did we fund the rest? The answer is that this was the ultimate public-private partnership. I am particularly worried that in this Congress—especially as it considers a transportation bill next year—we have forgotten our own economic legacy, especially from the time that we built one of the largest infrastructure development projects in history.

To recall, the Federal Government granted 20 square miles in alternating sections on either side of the railroad for every mile of track they laid for those railroads. The railroads were also granted timber, stone, and mineral rights on this land. In addition, for every mile of track they laid, the railroads were authorized to issue a set amount of bonds—loans they received—which interest payments were backed by the Federal Government. This guarantee allowed 30-year bonds to be issued at a low rate of 6 percent. This was one of the largest development projects in the history of the United States. That is why it is an example for how we respond to our transportation needs today.

When we look at our own economic legacy and look at the funding shortfall for new roads, airports, and rail, I think we should recover that legacy to respond to the challenge for next year. That is why I have introduced the Lincoln Legacy Infrastructure Development Act.

This legislation removes a number of Federal restrictions on public-private partnerships, providing States greater flexibility to generate transportation revenues and enhanced access to private capital for road, rail, aviation, transit, and port infrastructure. Under the Lincoln Legacy Infrastructure Development Act, we could mobilize over $100 billion for new infrastructure investment.

Specifically, this legislation lifts caps on cost recovery programs for highways; it incentivizes partnerships in transit; it removes barriers to airport privatization; it increases resources for the Transportation Infrastructure Finance and Innovation Act, sometimes called TIFIA; and it makes improvements to the Railroad Rehabilitation and Improvement Financing Program, which are backed by the U.S. High Speed Rail Association and the American High Speed Rail Association.

The legislation also stands on the premise that the taxpayer should be protected in these types of arrangements. Indiana showed us what a properly structured deal should look like. Governor Mitch Daniels reaped a windfall from the 2006 lease of the Indiana toll road that netted his State $3.8 billion for new transportation upgrades. Most of the money has now been reinvested in highway projects throughout his State, but leaders shrewdly placed $500 million in an interest-bearing account to fund future road projects. This is one of the many reasons why the Indiana economy has grown at twice the rate of the Illinois economy.

We have seen public-private partnerships take off not only in our own country, where they were invented, but in other countries, especially British Columbia and Australia, where they have authorized $30 billion for transportation infrastructure—almost 20 percent of their total, using this innovative financing means.

In these times of deficit and debt, we could let America grind to a halt, we could raise taxes and sock it to the working poor, we could slow down our economy with a new government burden, or we could recall our own economic legacy, written by Abraham Lincoln's administration itself, to use public-private partnerships as a way of growing jobs and incomes in the United States, without increasing taxes.

I urge this body to review this legislation as we come up with a new transportation bill, and to see it as a way to improve jobs, income, and our infrastructure—which is so critical to the crossroads of the Nation, Illinois—and do it in a way that doesn't hurt our economy or the working poor.

With that, I yield the floor.

The PRESIDING OFFICER. The Senator from Michigan.

THE DEBT CEILING

Mr. LEVIN. Mr. President, we must raise the debt ceiling, period. This is not an opinion, it is a fact. The consequences of failing to act are simply too catastrophic to consider any other course. Negotiations are underway now to seek an agreement to raise the debt ceiling as part of a larger agreement on deficit reduction. But there is a major obstacle to agreement: a refusal on the part of the Republican leadership to compromise, a refusal to understand that sacrifice must be shared.

The sacrifice, they say, must come from middle America—those struggling to pay for a college education or for health care for their kids or for long-term care for their parents. The Republican leader demands that this sacrifice be made by the middle class in order to protect the Bush tax cuts and other tax breaks for the wealthiest among us—despite the huge and growing gap in the distribution of income in our country between the wealthy and the middle class.

One example of the kind of tax breaks and tax loopholes that we Democrats seek to change is the unconscionable tax break given to hedge fund managers. Hedge fund managers generally make their money by charging their clients two fees. First, the manager receives a management fee, typically equal to 2 percent of the assets invested. Second, the manager typically receives 20 percent of the income from those investments above a certain level. This 20-percent share of the investment returns from hedge funds is known as ''carried interest.'' Under current law, most hedge fund managers claim that this carried interest qualifies as a long-term capital gain, currently subject to a maximum tax rate of 15 percent, rather than being taxed as ordinary income, currently subject to a maximum tax rate of 35 percent.

But a moment's analysis shows that this money is ordinary income by any fair definition and should be treated that way. The 20-percent fee is not capital gains, because it applies not to capital that the hedge fund manager